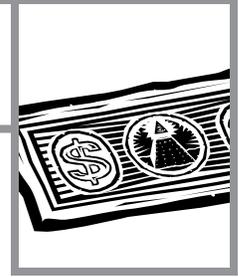


Appendix F: Comparison of Cost Proposals



This appendix provides a guide for comparing and evaluating the cost proposals submitted by the bidders. As noted in the manual (Chapter 5), the cost saving potential presented in the cost proposals depends on different assumptions. The best way to evaluate and compare the bid is to model each compensation proposal in a spreadsheet so that you can vary the assumptions to test the sensitivity of cost saving estimations. If an obviously favorable proposal exists, you might not need to perform this exercise.

The analysis comprises three main tasks:

1. Estimate savings potential

The first step is to read through all compensation proposals, list the fees proposed and the hypothetical cost savings, and identify assumptions made for the cost savings estimation. For each type of cost savings, estimate the savings that you can realize—for some cost reduction items, you might need to share the savings with your contractor (e.g., reduced disposal cost). Remember to use your baseline cost data as a reference against all proposed scenarios.

2. Modeling the costs and benefits

Table F-1 presents a sample worksheet for modeling costs and benefits for a single bid. The example used in Table F-1 assumes that your organization pays \$78,000 a year in external contracted costs and incurs additional costs of \$2,500 that are spread across several individuals to handle billing, environmental reporting, etc. You should have estimated these costs in Chapter 3 of this manual. Company A has submitted a bid, and the potential savings based on this bid are discussed below the table.

Appendix F: Comparison of Cost Proposals

Table F-1: Sample Worksheet for Modeling Costs and Benefits for Company A's Financial Proposal

	Year 1	Year 2	Year 3	Total
A. Baseline cost	\$ 80,500	\$ 80,500	\$ 80,500	\$ 241,500
A1. Current waste and recycling contract costs	\$ 78,000	\$ 78,000	\$ 78,000	\$ 234,000
A2. Internal management cost	\$ 2,500	\$ 2,500	\$ 2,500	\$ 7,500
Bid Received from Company A—Potential Savings				
B. Transition savings	\$ 3,000	\$ 3,000	\$ 3,000	\$ 9,000
<i>Your company's share</i>	100%	100%	100%	
B1. Your company's savings	\$ 3,000	\$ 3,000	\$ 3,000	\$ 9,000
C. Savings from waste disposal cost	\$ 5,000	\$ 7,500	\$ 9,000	\$ 21,500
<i>Your company's share *</i>	50%	50%	50%	
C1. Your company's savings	\$ 2,500	\$ 3,750	\$ 4,500	\$ 10,750
D. Savings from waste hauling fee	\$ 2,500	\$ 3,125	\$ 3,750	\$ 9,375
<i>Your company's share *</i>	50%	50%	50%	
D1. Your company's savings	\$ 1,250	\$ 1,563	\$ 1,875	\$ 4,688
E. Increased recycling revenue	\$ 1,500	\$ 2,250	\$ 2,700	\$ 6,450
<i>Your company's share *</i>	50%	50%	50%	
E1. Your company's savings	\$ 750	\$ 1,125	\$ 1,350	\$ 3,225
Potential Cost Increase				
F. Increased recycling processing and hauling fees	\$ 1,000	\$ 1,300	\$ 1,600	\$ 3,900
Your Total Net Savings (B1 + C1 + D1 + E1 - F)	\$ 6,500	\$ 8,138	\$ 9,125	\$ 23,763

** Gain-sharing split proposed by the bidder*

Baseline External Contract Costs and Internal Costs

- A. The worksheet should, at the minimum, include baseline data, which includes internal management costs and baseline waste and recycling service costs. (Line A)

Transition Savings

- B. Transition savings are simply the savings that result from the Company A taking over your existing services. Recall your baseline costs for contracted services was \$78,000. This example assumes Company A submitted a bid of \$75,000 to take over these services amounting to a \$3,000 annual savings from your current contract costs. Your company receives 100% of these savings. It is likely that the internal management costs of \$2,500 are also reduced. You will need to see if you can count internal management cost savings or whether it just means that your company's employees will now spend less time to do the tasks that made up these costs, such as billing and environmental reporting. In the example in Table F-1, we only show the \$3,000 savings in external contract costs.

Appendix F: Comparison of Cost Proposals

RM Savings from Continuous Improvements

- C. **Savings from waste disposal cost**, which could come from enhanced recycling and/or reduced resources use (e.g., change of disposal packaging to reusable ones, beneficial use of coal ash). These are hypothetical savings estimated according to the bidders' assumptions on the potential reduction in disposal tonnage as a result of enhanced recycling and other resource efficiency improvements. Your share of savings is based on the proposed percentage of gain-sharing bid. (Line C)
- D. **Savings from waste hauling fee**, which could come from waste reduction and optimizing hauling arrangement. These are hypothetical savings based on bidders' assumptions on waste reduction potential as a result of resource efficiency improvements and optimizing hauling arrangement. Your share of savings is determined based upon the proposed percentage of gain-sharing bid. (Line D)
- E. **Increased recycling revenue**, which comes from increased recycling. This is estimated based on bidders' assumption on recycling tonnage and the potential market price of recyclables. Your share of savings is determined based upon the proposed percentage of gain-sharing bid. (Line E)

Increased Recycling Fees

- F. **Increased recycling processing and hauling fees**, which is the service charge for hauling and processing recyclables. Such a fee is expected to increase over time as more recyclable materials are diverted from the waste stream. This fee is estimated based on the bidders' assumptions on increased recycling throughout the contract term, and the proposed recycling processing and hauling fee. (Line F)

Total Net Savings

Total net savings equals to the sum of all savings (Line B1 + C1 + D1 + E1) minus the increased recycling processing and hauling fee (Line F).

3. Testing the sensitivity of your estimation

Once you have established your model, you can test the sensitivity of your estimation to various assumptions. Those assumptions include, but are not limited to:

- Prices of recycling commodities
- Cost for waste disposal and recycling processing
- Reduction in waste disposal
- Composition of increased recycling

Run a few scenarios for each bidder's proposal, and provide your team members a summary sheet of each compensation proposal. By doing so, your team should be able to compare and rank the proposals and assign the scores for various proposals.